Sustainability-related disclosures

- LinkPension Index Fond 2 (Balancefokus)

Summary

LinkPension Index is a savings product with passive management. This means that investments follow selected indices and therefore have a wide spread of investments across countries and sectors.

The financial product promotes environmental or social characteristics, but it does not have a minimum proportion of Sustainable Investments.

Investments are based on Velliv's policy for responsible investments and active ownership, which is based on international principles and guidelines, including the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. At the same time, the principal adverse impacts on sustainability factors (PAIs) are taken into consideration when selecting investments as well as in connection with the ongoing monitoring of investments. The principal adverse impacts of investment decisions on sustainability factors are reported annually.

The investment strategy in LinkPension Index is a passive strategy that aims to create the best possible risk-adjusted return while taking into account the environmental and social footprint. In addition, the investment strategy allows for investment in assets that are expected to provide a high return and other assets with the aim of hedging against risk.

The planned proportion of investments that promote environmental and social characteristics is 95%. LinkPension Index does not have a minimum proportion of Sustainable Investments.

We monitor the adherence to the product's environmental and social characteristics by tracking a range of sustainability indicators:

- **CO_2e footprint** - we measure the CO_2e footprint of the underlying investments.
- **Taxonomy** - we measure activities aligned with the EU Taxonomy classification system.
- **The UN's 17 SDGs** - we measure how much the listed equities and corporate bonds contribute to the 17 UN Sustainable Development Goals.
- **Engagement in environmental and social issues** - we work to influence the companies in the product to improve their performance in areas such as pollution, biodiversity, labour conditions, human rights and anti-corruption.
- **Number of votes on environmental and social issues** - we vote at company AGMs in favour of proposals that encourage companies to improve their sustainability performance.
- **Exclusion of companies and countries** - we measure that there is no breach of our exclusion criteria.

In order to assess the environmental and social characteristics of the product, ESG data is collected from external data providers. Data is handled internally in recognised and tested systems, and in accordance with the business processes and working procedures applicable to the area.

In LinkPension Index, investments are primarily made through external asset managers. To ensure that the selection is in line with Velliv's positions and policies in the area, the qualities, methods and processes of the managers are assessed on an ongoing basis.

At Velliv, we continuously monitor whether investments are in line with our policy for responsible investments and active ownership. If data, analyses or screening show that there is a discrepancy, we can enter into dialogue or exclude the investments.

Data from a range of reputable external data providers is used to measure and follow up on the product's environmental and social characteristics, as well as the development in the proportion of Sustainable Investments. The extent and quality of data continues to vary, with data coverage observed to be best for listed investments. This limitation is not assessed to prevent Velliv from fulfilling the sustainability characteristics we offer customers.

No Sustainable Investment objective
This financial product promotes environmental and social characteristics but does not have Sustainable Investment as its objective.

All investments are regularly screened to ensure they do not violate international principles of responsible business conduct or significantly harm other social or environmental objectives. The screening is performed in accordance with our policy for responsible investments and active ownership. Additionally, Principal adverse impact indicators (PAIs) are taken into account in the investment decision and in the regularly monitoring of the investments. These PAIs are reported on in the annual Statement on principal adverse impacts of investment decisions on sustainability factors

We exclude companies and countries that Velliv considers to be inconsistent with the ambition of contributing to a more sustainable world. The product's investments are continuously screened to ensure that they do not violate international principles of responsible business conduct or cause significant harm to other social or environmental objectives. The screening is conducted in accordance with our policy for responsible investments and active ownership.

Environmental or social characteristics of the financial product
This product promotes environmental and social characteristics by adhering to Velliv's policy for responsible investments and active ownership, which is available on our website. This means that, for LinkPension Index, we have promoted the environmental and social characteristics by following Velliv's approach to exclusion and active ownership.

Exclusion of companies and countries
In general, Velliv does not wish to exclude companies as, in our assessment, this does not create real change in society. However, exclusion may be necessary in cases where there is no desire or willingness to change. The product excludes investments in companies and countries in accordance with Velliv's general exclusion criteria. The product does not invest in:

- Companies with revenue from extraction of thermal coal or coal in energy production and with plans for thermal coal expansion,
- Companies where more than 5 % of the revenue comes from extraction of thermal coal,
- Companies where more than 5 % of the revenue comes from extraction and production of oil and natural gas using unconventional methods, including oil sands, arctic drilling and fracking.

- Companies where more than 5% of revenue originates from selected activities in the fossil fuel value chain and/or for the use of thermal coal, oil or natural gas in energy production, unless Velliv assesses the company is undergoing a transition that aligns with a low-carbon economy. This implies, that the company has set ambitious climate targets, does not have fossil fuel expansion plans, does not engage in lobbying activities that are clearly opposed to the Paris Agreement, and must have good governance and management practices in the climate area.
- Companies that produce controversial weapons. Controversial weapons are defined in accordance with international treaties that Denmark has signed.
- Companies that by dealing in weapons breach applicable UN weapon sanctions, and
- Companies where more than 5 % of the revenue comes from tobacco production.

In the interests of democracy, human rights and freedom of expression, we exclude investments in government bonds issued by countries that do not have a satisfactory approach to governance and administrative action.

In addition to the exclusion criteria mentioned above, Velliv may decide to exclude individual assets based on their exposure to Sustainability Risks. Decisions concerning potential divestment of individual assets are based on clearly defined assessment criteria and an assessment of the effectiveness of the divestment relative to other available tools, such as engagement with the portfolio companies.

The exclusion criteria apply to Velliv's portfolio of listed equities and corporate bonds that Velliv holds in its own custody accounts. When entering into an agreement with an external asset manager, the asset manager must acknowledge and accept Velliv's Policy on responsible investments and active ownership and that they will comply with the exclusion criteria. Velliv cannot insist on compliance with the exclusion list in external funds where Velliv does not have a controlling influence. With other asset classes, the approach is implemented to the extent possible. Our website includes a list of excluded companies and countries. The website is also where you can read about Velliv's approach to fossil fuel investments.

Active ownership

We work actively to influence the companies we invest in to improve their management of relevant sustainability aspects and risks. Our work consists in dialogue with companies and voting at their annual general meetings. Any such voting is based on Velliv's own or the external managers' voting policy. This could, for example, be with the goal of women being represented on boards, companies setting climate objectives or companies reporting further on their human rights and climate impacts.

Investment strategy

The investment strategy in LinkPension Index is a passive strategy that aims to create the best possible risk-adjusted return while taking into account our environmental and social footprint. We select external managers who invest across a broad range of options within listed shares and bonds.

In addition, the investment strategy allows for investment in assets that are expected to provide a high return and other assets with the aim of hedging against risk.

In addition, the investment strategy follows the principles and practices set out in Velliv's Responsible Investment and Active Ownership Policy, which describes, among other things, the excluded investment options.

The policy is based on internationally recognised principles of responsible corporate governance, including governance practices and our approach to tax planning. These include:

- The UN Global Compact.
- The UN Guiding Principles on Business and Human Rights.
- The OECD Guidelines for Multinational Enterprises.

Proportion of investments

The planned proportion of investments that promote environmental and social characteristics is 95%, but the financial product will not make any Sustainable Investments.

Monitoring of environmental or social characteristics

At Velliv, we use data to continuously monitor the development of the products' sustainability indicators, metrics for adverse impacts on sustainability factors and compliance with our exclusion criteria.

In order to support the environmental and social characteristics of the product, we monitor whether the companies we invest in live up to how we expect them to manage environmental, social and governance (ESG) aspects.

To this end, we use the following sustainability indicators, among others:

- **CO_2e footprint** - we measure the CO_2e footprint of the underlying investments.
- **Taxonomy** - we measure activities aligned with the EU Taxonomy classification system.
- **The UN's 17 SDGs** - we measure how much the listed equities and corporate bonds contribute to the 17 UN Sustainable Development Goals.
- **Engagement in environmental and social issues** - we work to influence the companies in the product to improve their performance in areas such as pollution, biodiversity, labour conditions, human rights and anti-corruption.
- **Number of votes on environmental and social issues** - we vote at company AGMs in favour of proposals that encourage companies to improve their sustainability performance.
- **Exclusion of companies and countries** - we measure that there is no breach of our exclusion criteria.

As a rule, Velliv does not wish to exclude companies as, in our assessment, this does not create real change in society. In cases where companies fail to comply with Velliv's Responsible Investment and Active Ownership Policy, including failing to meet Velliv's expectations for responsible business practices, a dialogue with the company will generally be initiated first. If the dialogue does not produce satisfactory results, exclusion may be necessary.

The above-mentioned monitoring is ongoing, and the results are reported annually in connection with the publication of the periodic product reports.

Methodologies

At Velliv, we measure, analyse and assess how we are doing in promoting the environmental and social characteristics of our investments and products. For this we use sustainability-related data that we receive from external data providers.

Methodology to measure sustainability characteristics

To assess how the investments in our products promote environmental and social characteristics, we measure on a number of sustainability indicators, as explained previously in the document. These include, the extent to which the listed equities and corporate bonds have a positive revenue contribution to one or more of the UN Sustainable Development Goals, as well as the CO_2e-footprint of the investments. To measure the sustainability indicators, we use a number of recognized data providers including ISS and Sustainalytics.

Method for measuring compliance with good governance practices for article 8 investments

According to the Sustainable Finance Disclosure Regulation (SFDR), all investments in a savings product under article 8 of the regulation must follow good governance practices. This is determined in part by the investment not being in breach of the principles of the UN Global Compact or the OECD Guidelines for Multinational Enterprises. Governance is assessed using data from Sustainalytics.

Velliv's definition of Good Governance covers four elements of management practice:

- *Sound management structures*

  Sound management structures covers both the specific composition of the company's leadership, including the composition and independence of the board of directors, auditing practices, etc. as well as ethical aspects, such as approach to corruption, etc.

- *Employee relations*

  Employee relations encompasses labour rights, such as the absence of forced labour, approach to health and safety in the workplace, non-discrimination, etc.

- *Remuneration of staff*

  Remuneration of staff concerns employment conditions in relation to wages – for example, the right to collective bargaining as well as specific aspects of pay that can potentially be measured in terms of wage gaps between the genders and between employees and management, for example.

- *Compliance with tax regulations*

  Compliance with tax regulations concerns the company's approach to corporate tax matters.

The table below shows which parameters, data points and threshold values Velliv uses to assess whether a company complies with the four principal elements of good governance.

Elements	Data point	Relevant underlying indicators	Threshold
Governance structure	UN Global Compact Principle 10 – Businesses should work against all forms of corruption, including extortion and bribery	Audit matters, Bribery and corruption	Breach
Labour relations	UN Global Compact Principle 1 – Businesses should support and	Workers' human rights, including labour rights	Breach

	respect the protection of internationally proclaimed human rights within their sphere of influence		
	UN Global Compact Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Trade-union freedom	Breach
	UN Global Compact Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour	Forced labour	Breach
	UN Global Compact Principle 5 – Businesses should support the effective abolition of child labour	Child labour	Breach
	UN Global Compact Principle 6 – Businesses should work against discrimination in respect of employment and occupation	Discrimination and harassment	Breach
Remuneration of staff	UN Global Compact Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence	Workers' human rights, including labour rights	Breach
	UN Global Compact Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Trade-union freedom	Breach
Compliance with tax rules	UN Global Compact Principle 10 – Businesses should work against all forms of corruption, including extortion and bribery	Tax matters	Breach

In addition to the particular indicators listed in table 1, an assessment is made as to whether the company complies with international principles for responsibility and sustainability, cf. Policy for responsible investments and active ownership. More specifically, whether the company complies with the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Companies deemed to be in breach of international standards are flagged in the assessment.

Velliv's investments made through externally managed funds are subject to Velliv's due diligence of the external asset manager's approach to assessing good governance, with the aim of ensuring that it complies with the principles underpinning Velliv's definition and criteria for determining good governance.

No internal assessment of good governance is performed on investments that are 100% in compliance with the EU Taxonomy, as this is included as part of the technical screening criteria in the EU regulation.

Method for measuring responsible and sustainable business practices through active ownership
Velliv votes at the ordinary and extraordinary general meetings of investee companies by proxy, whereby our external data adviser, ISS ESG, is mandated to vote on behalf of Velliv guided by our voting policy. We receive regular reports from ISS ESG on voting activity, which we use in our reports.

We pursue active ownership dialogues independently, via other investors and through our data provider, Sustainalytics. We keep track of all three types of active ownership dialogues as well as their outcomes, including if dialogues have not produced the desired changes in business conduct – which may ultimately lead to exclusion.

Method to measure the exclusion of companies and countries that are not aligned with the aim of contributing to a more sustainable world
We update our exclusion list semi-annually in order to comply with environmental and social minimum requirements. This ensures that the criteria still apply for already excluded companies – and also that new companies covered by the criteria are excluded. As part of this process, we regularly measure that there are no breaches of our exclusion criteria. Velliv's list of excluded countries is updated once a year.

Data sources and processing
We use data from external providers and fund managers to measure environmental and social characteristics as well as compliance with good governance practices. The external data providers include:

- Sustainalytics
- ISS ESG
- MSCI
- Velliv Ejendomme
- Maplecroft

We continuously check the data we receive to ensure data quality. We obtain additional data if needed.

Data is continuously analysed and historical data is stored to allow us to identify any discrepancies.

We have recognised and tested systems that process the sustainability data provided in accordance with the business processes and working procedures applicable to the area, which are based on the same principles as apply to financial data.

Limitations to methodologies and data
The extent and quality of available sustainability data continues to vary. At Velliv, we currently have data primarily on listed companies, and to a lesser extent on unlisted investments.

We expect that both the volume and quality of available data will improve in years to come. In addition, we expect that improved access to data as well as experience in the field in general in the industry will mean that methods and approaches need to be adapted. The available data, Velliv's adopted methodologies and the implemented system support allow us to continuously monitor and assess the promotion of environmental and social characteristics as well as the development of the proportion of

Sustainable Investments. Thus, the limitations do not affect the fulfilment of the sustainability characteristics we promise to the customer.

Due diligence
Investment selection is primarily done through external managers. To ensure that the selection is in line with Velliv's positions and policies in the area, the qualities, methods and processes of the managers are assessed on an ongoing basis.

At Velliv we prefer to work with asset managers that have also signed up to the UN-backed Principles for Responsible Investments (PRI) or operate on similar principles.

Active ownership policy
Investments are based on Velliv's policy for responsible investments and active ownership, which is based on international principles and guidelines, including the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

At Velliv we work actively to influence the companies we invest in to improve their management of relevant sustainability aspects and risks. Our work consists in dialogue with companies and voting at their annual general meetings. Any such voting is based on Velliv's own or the external managers' voting policy.

As a rule, Velliv does not wish to exclude companies as, in our assessment, this does not create real change in society. In cases where companies fail to comply with Velliv's policy for responsible investments and active ownership and fail to meet Velliv's expectations for responsible business practices, a dialogue with the company will generally be initiated. However, exclusion may be used in situations where companies exhibit no desire or willingness for change.

Designated reference benchmark
No index has been designated as a reference benchmark to attain the environmental or social characteristics.